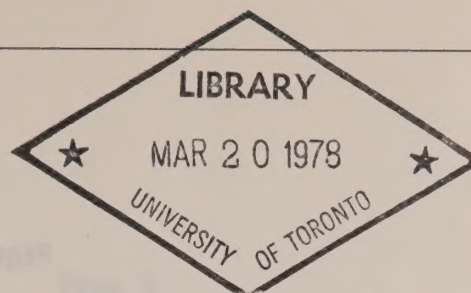


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FOR RELEASE: Monday 20 February 1978

THE ONTARIO ECONOMY, 1978-1987 - a conference paper issued
by the Ontario Economic Council for the Outlook & Issues '78
Conference, March 6, Prince Hotel, Toronto.

TORONTO, February 20 -- "The broad picture which emerges
from this study is one in which both unemployment
and inflation may continue at what are considered high
rates by historical standards. The high unemployment
rate may, however, be deceptive in that the major cause
of unemployment may be structural problems in labour
markets, not a gross insufficiency of aggregate demand."

So say the authors of THE ONTARIO ECONOMY, 1978-1987, an
update of a 1976 study, THE ONTARIO ECONOMY, 1977-1987,
both studies published by the Ontario Economic Council.
This update was prompted by changes in the economy
since the initial study in 1976, changes related to such
factors as energy, investments, inflation, unemployment
rates and foreign exchange rates.

Authors of the current study, John A. Sawyer, D. Peter Dungan and John W. L. Winder of the Institute for Policy Analysis, University of Toronto, say that "a two-fold attack on the economic problems of unemployment and inflation would be to improve the functioning of labour markets and to maintain fiscal restraint and a moderate rate of growth in the money supply." If these policies are not sufficient to bring about full employment, the study suggests that "reductions in sales or income taxes should be considered."

The report states that the supply of energy is a critical factor in determining the future course of the Canadian and Ontario economies. "Movement of domestic energy prices toward world prices will stimulate domestic supplies, encourage conservation and the development of new technologies," the report comments. "If these are not forthcoming...an increased reliance on imported energy will likely lead to a further depreciation of the Canadian dollar and even higher general price levels in Canada."

One of the major assumptions concerning future energy policies is the reduction in net dependence on imported oil and an increase in oil prices toward international levels. In the projection, imports of petroleum begin to rise about 1983.

The report warns against the possible over-reliance on foreign capital for financing domestic capital formation. "Such inflows," say the authors, "have significant upward effects on the foreign exchange rate and may prevent or delay required adjustments of the exchange rate to maintain purchasing power parity (as happened in the mid-1970's)." The report suggests that government surpluses may be a more appropriate method of financing domestic capital formation.

The authors confirm that with respect to the industrial structure of the economy, the conclusions of the 1976 study are still valid:

- (i) The changing structure of industry reflects to a large extent changing consumer demands and should be adapted to, not resisted.
- (ii) Growth in the average productivity of labour should result from technical change and increased investments. This will occur if businesses anticipate that such actions will be profitable. Hence, uncertainty about taxation and regulation should be reduced as much as possible.
- (iii) Increased investments may achieve economies of scale where the size of the market can be expanded. This suggests that barriers to trade, both inter-provincial and international, should

be reduced... Competition policy is ...
important in protecting the consumer in purely
domestic industries.

- (iv) Increasingly, new job opportunities will
exist in the service industries.

The study emphasizes that these are "conditional projections, not forecasts." They necessarily rest on a combination of assumptions, speculations and estimates. Such projections can serve the useful purpose of indicating the general outlook and of highlighting some of the economic problems that are likely to be encountered in future years.

In addition to providing projections based upon current circumstances and policies, the study also provides estimates of the possible impact of a number of changes in the economic environment and in economic policy. These include a devaluation of the Canadian dollar, increased exports and foreign investment, improved labour markets, increased business investment and changes in income taxes, sales taxes, government expenditures and the money supply.

This study is one of three conference papers to be issued by the Ontario Economic Council in conjunction with its Outlook & Issues '78 Conference to be held March 6 at the Prince Hotel, Toronto.

Uncertainties concerning the future rate of inflation are a large factor contributing towards the unfavourable business climate and the performance of the stock market, the report contends.

The report speculates that if there is a revival of business confidence in 1978, growth of real GNP above 4 per cent in 1978 and above 5 per cent in 1979 may be possible at the national level. Little reduction in the rate of inflation may be achieved. It seems unlikely that the rate will fall below six per cent before 1980. The unemployment rate is likely to remain near the present level through 1979 since the growth in the labour force will approximately equal the number of jobs created. "In short," the report says, "moderate growth may be achieved if some of the uncertainties concerning the economic environment can be resolved."

For the period 1977-1982, the study projects an average increase in real output in Ontario of 5.3 per cent, an average unemployment rate of 6.5 per cent and a rate of price inflation of just under 6 per cent. For the succeeding five years, 1982-1987, an average increase of 4.4 per cent is projected in real output along with an average unemployment rate of 5.3 per cent and an inflation rate of almost 7 per cent. (see chart 1.1)

On employment in Ontario, the authors observe that over the entire projection period the rate of growth in service industries employment in Ontario is nearly double that of the goods industries.

In evaluating the impact of policy changes, one of the conclusions of the study is that "although the increased government expenditure has significant real output and employment effects, the fact that it generates a much higher price level than do the tax reduction stimuli suggests that it is a less desirable device for executing an expansionary fiscal policy."

The study concedes that the Ontario government's "dramatic slowdown in rate of growth of expenditures from almost 25 per cent to 8 per cent per annum over a four-year period represents a substantial departure from historically evolving trends....It remains to be seen whether the policy of restraint is viable in the longer run, or whether the pressures for expenditure will burst the recently imposed bonds."

For further information on The Ontario Economy, 1978-1987, please contact:

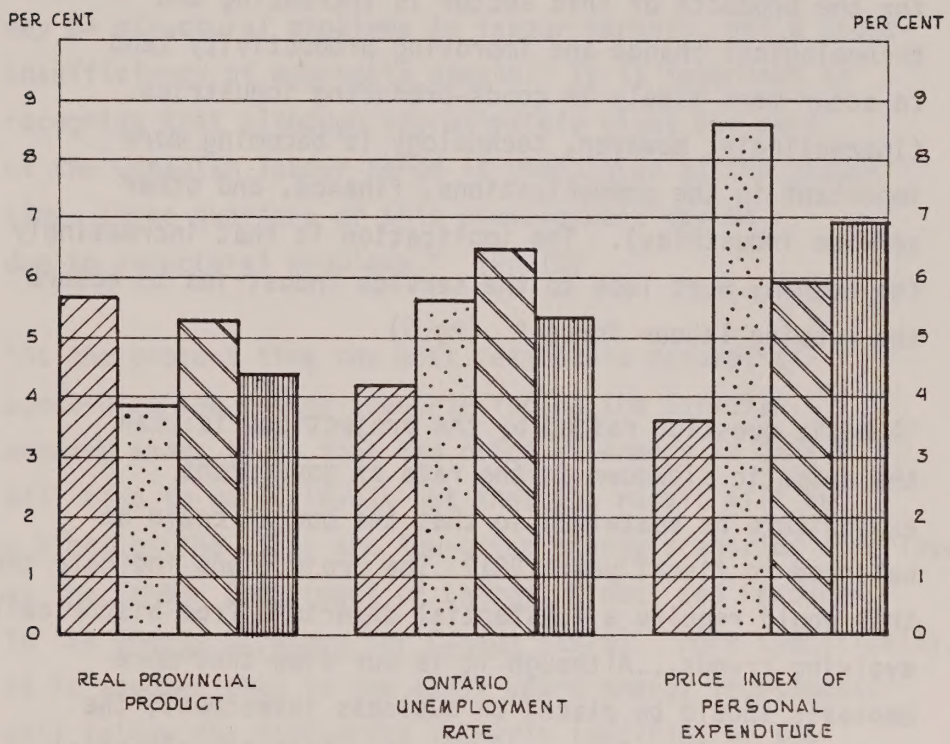
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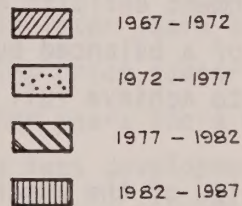
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CHART 1.1

ONTARIO UNEMPLOYMENT RATE AND ANNUAL AVERAGE
GROWTH RATE OF REAL PROVINCIAL PRODUCT
AND PRICE INDEX OF PERSONAL EXPENDITURE.



SOURCE: TABLES 1.1 AND 1.2



SELECTED QUOTATIONS

"A general feature of the industrial projections is an increasing proportion of employment in the service sector of the economy. This reflects the facts that demand for the products of this sector is increasing and technological change and improving productivity tend to occur more widely in goods-producing industries. (Increasingly, however, technology is becoming more important in the communications, finance, and other service industries). The implication is that increasingly the economy must look to the service industries to absorb the growing labour force." (Pg.5)

"A basic question raised by the projections is: can the dramatic slowdown in the rate of government expenditure be sustained so that the budget could be balanced in fiscal year 1981? The projections indicate that this would require a substantial departure from historically evolving trends...Although it is our view that more emphasis should be placed on business investment, the general view that in an economy that is below potential government deficits are desirable merits support. The goal of a balanced budget should be coupled with a plan to achieve full employment." (Pg.9)

"In view of the apparent importance to the Province of maintaining its high credit rating, and thus ensuring its access to the United States capital market, the input of financing considerations into taxation and/or expenditure decisions will undoubtedly assume greater

importance in the years ahead. Because of the interdependence of the borrowing requirements of the Province and Ontario Hydro, planned capital expenditures of Ontario Hydro may also be adjusted in response to the tightening financing constraints...The high unemployment rate may, however, be deceptive in that the major cause of unemployment may be structural problems in labour markets, not a gross insufficiency of aggregate demand. It is important to recognize that although approximately eight per cent of the Canadian labour force is unemployed at the present time, three quarters of this unemployment may be due to structural problems." (Pg.10)

"At the present time the most reasonable assumption concerning the energy scenario facing the Canadian economy seems to be that the price of energy in Canada will rise to world levels but that the result will be a blend of the high- and low-price energy scenarios described by the Canada Department of Energy, Mines, and Resources in its Energy Strategy for Canada (1976). More specifically, it is assumed that in the early years energy investments will follow the high-price scenario (modified by the substitution of the Alaska Highway pipeline for the proposed Mackenzie Valley pipeline), but that in later years the pattern will follow more closely the low-price scenario. That is, it is assumed that in the later years there will be more reliance on electric power and less development of domestic gas and oil. Imports of petroleum therefore begin to rise about 1983 in the projection. The world price of petroleum is assumed to remain constant in real terms throughout the projection. The nominal dollar prices rise, however, with the rate of inflation

of the U.S. dollar and with any depreciation in the external value of the Canadian dollar. This assumption then determines the price of imports and exports of fuels (other than electric power) in the projections." (Pgs. 18-19)

"The solutions also assume that some of the uncertainties inhibiting business investment in Canada will disappear and that from 1979 onward 'normal' investment behaviour by the business community will be resumed. The announced removal in 1978 of the wage and profits controls of the current Anti-Inflation Policy should contribute to this restoration of confidence." (Pg.23)

"Over 1977-82, it is the investment aggregate that shows the greatest growth rate and, hence, growth in share. This is mainly attributable to the projected increase in energy-related investment. Over 1982-87 the growth rate of investment drops considerably - but the growth of business machinery-and-equipment investment remains above the expenditure average of 4.8 per cent and its share increases." (Pg.64)

THE ONTARIO ECONOMY 1978 - 1987 is available only at the Ontario Government Bookstore, 880 Bay Street, Toronto, Ontario M7A 1N8. Price: \$2.00. A cheque or money order payable to the Treasurer of Ontario must accompany all mail orders.

OTHER RESEARCH REPORTS prepared for the Ontario Economic Council can be obtained from the University of Toronto Press, 5201 Dufferin Street, Downsview, Ontario M3H 5T8, at major booksellers, or from the Ontario Government Bookstore at the address above.

